

**REPORT OF THE AUDIT OF THE
HENRY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
HENRY COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Henry County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Henry County, Kentucky.

Financial Condition:

The Henry County Fiscal Court had total receipts of \$5,375,611 and disbursements of \$5,197,904 in fiscal year 2014. This resulted in a total ending fund balance of \$3,715,383, which is an increase of \$128,470 from the prior year.

Report Comments:

2014-001 The County Has A Lack Of Segregation Of Duties Related To Receipts And Payroll

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Henry County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in more fully in Note 1, the financial statement is prepared by Henry County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Henry County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Henry County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Henry County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2015 on our consideration of Henry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2014-001 The County Has A Lack Of Segregation Of Duties Related To Receipts And Payroll

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

June 30, 2015

HENRY COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

John Logan Brent	County Judge/Executive
Scott Bates	Magistrate
Jerry Beasley	Magistrate
David Brown	Magistrate
Michael Fisher	Magistrate
Roger Hartlage	Magistrate
Nick Hawkins	Magistrate

Other Elected Officials:

Virginia Harrod	County Attorney
Scot Southworth	Jailer
Juanita Lashley	County Clerk
Gina Lyle	Circuit Court Clerk
Danny Cravens	Sheriff
Jason Scriber	Property Valuation Administrator
James Pollard	Coroner

Appointed Personnel:

Lori Jones	County Treasurer
Peggy Bryant	Chief Financial Officer/Deputy County Judge Executive

HENRY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

HENRY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,216,852	\$	\$
Excess Fees	141,280		
Licenses and Permits	205,498		
Intergovernmental	269,353	1,383,273	130,055
Charges for Services	858,032		8,617
Miscellaneous	998,954	5,302	12
Interest	3,975	6,383	80
Total Receipts	<u>3,693,944</u>	<u>1,394,958</u>	<u>138,764</u>
DISBURSEMENTS			
General Government	1,426,527		
Protection to Persons and Property	701,988		438,501
General Health and Sanitation	114,824		
Social Services	8,000		
Recreation and Culture	118,338		
Roads		979,526	
Debt Service	56,902		
Capital Projects	59,172		
Administration	947,434	203,148	28,323
Total Disbursements	<u>3,433,185</u>	<u>1,182,674</u>	<u>466,824</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>260,759</u>	<u>212,284</u>	<u>(328,060)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account	(49,237)		
Transfers From Other Funds	149,084		325,000
Transfers To Other Funds	(332,452)	(149,084)	
Total Other Adjustments to Cash (Uses)	<u>(232,605)</u>	<u>(149,084)</u>	<u>325,000</u>
Net Change in Fund Balance	28,154	63,200	(3,060)
Fund Balance - Beginning (Restated)	<u>1,777,147</u>	<u>1,621,183</u>	<u>39,562</u>
Fund Balance - Ending	<u>\$ 1,805,301</u>	<u>\$ 1,684,383</u>	<u>\$ 36,502</u>
Composition of Fund Balance			
Bank Balance	\$ 466,726	\$ 287,473	\$ 36,502
Less: Outstanding Checks	(4,572)	(3,125)	
Certificate of Deposits	<u>1,343,147</u>	<u>1,400,035</u>	
Fund Balance - Ending	<u>\$ 1,805,301</u>	<u>\$ 1,684,383</u>	<u>\$ 36,502</u>

The accompanying notes are an integral part of the financial statement.

HENRY COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Solid Waste Fund	Emergency 911 Fund	Fair Fund	Total Funds
\$	\$	\$ 53,116	\$	\$ 1,269,968
				141,280
				205,498
61,378	26,516			1,870,575
				866,649
			6,757	1,011,025
35	49	87	7	10,616
61,413	26,565	53,203	6,764	5,375,611
				1,426,527
20,000		15,969		1,176,458
8,000	28,030			150,854
26,100				34,100
730			16,202	135,270
				979,526
				56,902
				59,172
76	114			1,179,095
54,906	28,144	15,969	16,202	5,197,904
6,507	(1,579)	37,234	(9,438)	177,707
				(49,237)
			7,452	481,536
				(481,536)
			7,452	(49,237)
6,507	(1,579)	37,234	(1,986)	128,470
36,697	49,146	60,513	2,665	3,586,913
\$ 43,204	\$ 47,567	\$ 97,747	\$ 679	\$ 3,715,383
\$ 43,204	\$ 47,967 (400)	\$ 97,747	\$ 679	\$ 980,298
				(8,097)
				2,743,182
\$ 43,204	\$ 47,567	\$ 97,747	\$ 679	\$ 3,715,383

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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HENRY COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Henry County includes all budgeted and unbudgeted funds under the control of the Henry County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Solid Waste Fund - The primary purpose of this fund is to account for litter grants and related disbursements.

Emergency 911 Fund - The purpose of this fund is to account for Emergency 911 receipts and disbursements. The sole source of receipts for this fund is telephone taxes.

Fair Fund - The purpose of this fund is to account for receipts and disbursement for the fair grounds and park. The primary source of receipts for this fund is rents and transfers from the General Fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

E. Henry County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Henry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Henry County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Road Fund	Total Transfers In
General Fund	\$	\$ 149,084	\$ 149,084
Jail Fund	325,000		325,000
Fair Fund	7,452		7,452
Total Transfers Out	<u>\$ 332,452</u>	<u>\$ 149,084</u>	<u>\$ 481,536</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Long-term Debt

A. Financial Obligation-Courthouse Annex

On October 29, 1999 Henry County Fiscal Court entered into a financial obligation agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for the purchase of the Courthouse Annex county office building in the amount of \$375,000. The obligation (\$356,417) was refinanced on May 7, 2001, with the terms being changed to a variable interest rate on the unpaid principal, and with monthly payments due the 20th of each month. The obligation is to be paid in full on May 20, 2020. The principal balance was \$148,429 as of June 30, 2014. The following table shows the scheduled interest (based upon an interest rate of 4%) and principal amounts during the next five years and thereafter:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 21,468	\$ 5,984
2016	22,823	5,062
2017	24,264	4,074
2018	25,795	3,027
2019	27,423	1,912
2020	26,656	715
Totals	<u>\$ 148,429</u>	<u>\$ 20,774</u>

B. Financial Obligation-Track Loader

On November 24, 2004, Henry County Fiscal Court entered in an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$79,011. The purpose of the financing was for the purchase of a track loader. The term for this agreement was 10 years with the balance to be paid in full July 20, 2015. The principal balance was \$24,011 as of June 30, 2014. The following table shows the scheduled remaining interest and principal amounts due:

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

B. Financial Obligation- Track Loader (Continued)

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 10,000	\$ 700
2016	14,011	56
Totals	<u>\$ 24,011</u>	<u>\$ 756</u>

C. Financial Obligation-Land Purchased

On February 8, 2007, the Henry County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$302,782. The purpose of the financing was for the purchase of land for the building of a senior citizens center, a park and possibly a new health department building. The term for this agreement was 10 years with a variable interest rate based upon an interest rate swap; the balance is to be paid in full January 20, 2017. The principal balance was \$92,782 as of June 30, 2014. The following table shows the scheduled remaining interest and principal amounts due:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 30,000	\$ 3,714
2016	30,000	2,452
2017	32,782	978
Totals	<u>\$ 92,782</u>	<u>\$ 7,144</u>

D. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 320,415	\$	\$ 55,193	\$ 265,222	\$ 61,468
Total Long-term Debt	<u>\$ 320,415</u>	<u>\$ 0</u>	<u>\$ 55,193</u>	<u>\$ 265,222</u>	<u>\$ 61,468</u>

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System (Continued)

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$348,335, FY 2013 was \$409,821, and FY 2014 was \$382,065.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System (Continued)

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

In July 1999, the Henry County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2014, Henry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Payroll Revolving Account

The reconciled balance of \$ 49,237, of the Payroll Revolving Account as of June 30, 2013, was added to the General Fund cash balance for financial reporting purposes, during the current fiscal year the \$49,237 was allocated to the General Fund.

Note 9. Prior Period Adjustments

The beginning balance of the General Fund, Road Fund, and Jail Funds were restated by \$2,564, \$98, and \$23, respectively due to the correction of errors and/or the writing off of voided checks.

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HENRY COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,049,701	\$ 1,049,701	\$ 1,216,852	\$ 167,151
Excess Fees	98,500	98,500	141,280	42,780
Licenses and Permits	219,200	219,200	205,498	(13,702)
Intergovernmental	290,329	290,329	269,353	(20,976)
Charges for Services	651,000	651,000	858,032	207,032
Miscellaneous	1,041,822	1,041,822	998,954	(42,868)
Interest	11,000	11,000	3,975	(7,025)
Total Receipts	3,361,552	3,361,552	3,693,944	332,392
DISBURSEMENTS				
General Government	1,670,089	1,673,558	1,426,527	247,031
Protection to Persons and Property	710,198	751,545	701,988	49,557
General Health and Sanitation	160,172	165,075	114,824	50,251
Social Services	8,000	8,000	8,000	
Recreation and Culture	122,556	126,106	118,338	7,768
Debt Service	58,500	58,500	56,902	1,598
Capital Projects	62,000	62,000	59,172	2,828
Administration	1,089,500	1,036,231	947,434	88,797
Total Disbursements	3,881,015	3,881,015	3,433,185	447,830
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(519,463)	(519,463)	260,759	780,222
Other Adjustments to Cash (Uses)				
Financing Obligation Proceeds	27,500	27,500		(27,500)
Transfers From Other Funds	149,084	149,084	149,084	
Transfers To Other Funds	(478,366)	(478,366)	(332,452)	145,914
Total Other Adjustments to Cash (Uses)	(301,782)	(301,782)	(183,368)	118,414
Net Change in Fund Balance	(821,245)	(821,245)	77,391	898,636
Fund Balance Beginning (Restated)	821,245	821,245	1,727,910	906,665
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,805,301	\$ 1,805,301

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,346,145	\$ 1,346,145	\$ 1,383,273	\$ 37,128
Miscellaneous	2,135	2,135	5,302	3,167
Interest	11,000	11,000	6,383	(4,617)
Total Receipts	1,359,280	1,359,280	1,394,958	35,678
DISBURSEMENTS				
Roads	973,137	993,558	979,526	14,032
Administration	247,158	226,737	203,148	23,589
Total Disbursements	1,220,295	1,220,295	1,182,674	37,621
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	138,985	138,985	212,284	73,299
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(149,084)	(149,084)	(149,084)	
Total Other Adjustments to Cash (Uses)	(149,084)	(149,084)	(149,084)	
Net Change in Fund Balance	(10,099)	(10,099)	63,200	73,299
Fund Balance Beginning (Restated)	10,099	10,099	1,621,183	1,611,084
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,684,383	\$ 1,684,383

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 129,500	\$ 129,500	\$ 130,055	\$ 555
Charges for Services	7,501	7,501	8,617	1,116
Miscellaneous	1,512	1,512	12	(1,500)
Interest	50	50	80	30
Total Receipts	138,563	138,563	138,764	201
DISBURSEMENTS				
Protection to Persons and Property	565,300	565,400	438,501	126,899
Administration	44,200	44,100	28,323	15,777
Total Disbursements	609,500	609,500	466,824	142,676
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(470,937)	(470,937)	(328,060)	142,877
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	470,914	470,914	325,000	(145,914)
Total Other Adjustments to Cash (Uses)	470,914	470,914	325,000	(145,914)
Net Change in Fund Balance	(23)	(23)	(3,060)	(3,037)
Fund Balance Beginning (Restated)	23	23	39,562	39,539
Fund Balance - Ending	\$ 0	\$ 0	\$ 36,502	\$ 36,502

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 55,000	\$ 55,000	\$ 61,378	\$ 6,378
Interest	100	100	35	(65)
Total Receipts	55,100	55,100	61,413	6,313
DISBURSEMENTS				
Protection to Persons and Property	20,000	20,000	20,000	
General Health and Sanitation	8,000	8,000	8,000	
Social Services	32,900	32,900	26,100	6,800
Recreation and Culture	1,250	1,250	730	520
Administration	750	750	76	674
Total Disbursements	62,900	62,900	54,906	7,994
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(7,800)	(7,800)	6,507	14,307
Net Change in Fund Balance	(7,800)	(7,800)	6,507	14,307
Fund Balance Beginning	7,800	7,800	36,697	28,897
Fund Balance - Ending	\$ 0	\$ 0	\$ 43,204	\$ 43,204

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

SOLID WASTE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 26,000	\$ 26,000	\$ 26,516	\$ 516
Interest			49	49
Total Receipts	26,000	26,000	26,565	565
DISBURSEMENTS				
General Health and Sanitation	28,000	28,100	28,030	70
Administration	1,000	900	114	786
Total Disbursements	29,000	29,000	28,144	856
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,000)	(3,000)	(1,579)	1,421
Net Change in Fund Balance	(3,000)	(3,000)	(1,579)	1,421
Fund Balance Beginning	3,000	3,000	49,146	46,146
Fund Balance - Ending	\$ 0	\$ 0	\$ 47,567	\$ 47,567

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

EMERGENCY 911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 60,000	\$ 60,000	\$ 53,116	\$ (6,884)
Interest	50	50	87	37
Total Receipts	60,050	60,050	53,203	(6,847)
DISBURSEMENTS				
Protection to Persons and Property	66,551	66,551	15,969	50,582
Administration	5,002	5,002		5,002
Total Disbursements	71,553	71,553	15,969	55,584
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(11,503)	(11,503)	37,234	48,737
Net Change in Fund Balance	(11,503)	(11,503)	37,234	48,737
Fund Balance Beginning	11,503	11,503	60,513	49,010
Fund Balance - Ending	\$ 0	\$ 0	\$ 97,747	\$ 97,747

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

FAIR FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1	\$ 1	\$	\$ (1)
Miscellaneous	12,001	12,001	6,757	(5,244)
Interest	50	50	7	(43)
Total Receipts	12,052	12,052	6,764	(5,288)
DISBURSEMENTS				
Recreation and Culture	22,002	22,102	16,202	5,900
Administration	2,502	2,402		2,402
Total Disbursements	24,504	24,504	16,202	8,302
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(12,452)	(12,452)	(9,438)	3,014
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	7,452	7,452	7,452	
Total Other Adjustments to Cash (Uses)	7,452	7,452	7,452	
Net Change in Fund Balance	(5,000)	(5,000)	(1,986)	3,014
Fund Balance Beginning	5,000	5,000	2,665	(2,335)
Fund Balance - Ending	\$ 0	\$ 0	\$ 679	\$ 679

HENRY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses)-Budgetary Basis	\$ (183,368)
To adjust for Payroll Account	<u>(49,237)</u>
Total Other Adjustments to Cash (Uses)-Regulatory Basis	<u>\$ (232,605)</u>
Fund Balance Beginning (Restated)-Budgetary Basis	\$ 1,727,910
To adjust for Payroll Account	<u>49,237</u>
Total Fund Balance Beginning (Restated)-Regulatory Basis	<u><u>\$ 1,777,147</u></u>

HENRY COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

HENRY COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 681,782	\$	\$	\$ 681,782
Buildings	2,549,262			2,549,262
Equipment	1,042,853	13,611		1,056,464
Vehicles	1,254,564		65,838	1,188,726
Infrastructure	5,000,536	403,083		5,403,619
 Total Capital Assets	 <u>\$ 10,528,997</u>	 <u>\$ 416,694</u>	 <u>\$ 65,838</u>	 <u>\$10,879,853</u>

HENRY COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-25

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Henry County Fiscal Court for the fiscal year ended June 30, 2014 and the related notes to the financial statement and have issued our report thereon dated June 30, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Henry County Fiscal Court's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Henry County's Fiscal Court internal control. Accordingly, we do not express an opinion on the effectiveness of the Henry County Fiscal Court's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, which is described in the accompanying comment and recommendation as item 2014-001 that we consider to be a significant deficiency.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henry County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

County Judge's Response to Finding

The Henry County Judge's response to the finding identified in our audit is included in the accompanying comment and recommendation. The County Judge's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 30, 2015

**HENRY COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2014

HENRY COUNTY
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2014

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

2014-001 The County Has A Lack Of Segregation Of Duties Related To Receipts And Payroll

We noted during the review of internal controls related to receipts, that there is a lack of segregation of duties. We noted that the same person collects receipts, creates the deposit ticket, takes the deposit to the bank, records the receipts in the ledger and reconciles the bank account. There is no independent review done over these procedures.

In reviewing controls over payroll, we determined there is a lack of segregation of duties related to payroll. We noted that the same employee enters payroll data into the payroll system, reviews it and compares it against timesheets, prints checks, requests funds for payroll from the operating account, signs the payroll checks, and reconciles the payroll bank account. All of these procedures are done without an independent review.

When controls procedures are performed by the same employee and no compensating controls are in place, the risk for material misstatement significantly increases due to error or fraud that could occur without being detected.

We recommend the County separate the control functions related to receipts, or implement procedures to begin having these steps reviewed for accuracy. The review should be documented by initials of the reviewer on all documents reviewed. We also recommend the County either separate the functions related to payroll or begin implementing procedures for a review of each step with the reviewer initialing each document reviewed.

County Judge/Executive John Logan Brent's Response: Will take additional steps on deposits.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HENRY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
HENRY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Henry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

